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DEPARTMENT PASS AGRICULTURE

CARACAS PASS PARTY OF UNDER SECRETARY ROBINSON

ROME FOR FAO

E. O. 11652 N/A

TAGS: OVIP; BR

SUBJECT: VISIT OF SECRETARY BUTZ TO BRAZIL: SUMMARY AND
EMBASSY'S ASSESSMENT

1. SUMMARY. IN EMBASSY'S VIEW, SECRETARY BUTZ'

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VISIT TO BRAZIL HAS MADE AN IMPORTANT CONTRIBUTION

TO THE STRENGTHENING OF US-BRAZILIAN RELATIONS.

MAJOR ACCOMPLISHMENTS OF THE VISIT ARE:

(A) ESTABLISHMENT OF A CLOSE PERSONAL WORKING RELATIONSHIP AT MOST SENIOR POLICY LEVELS BETWEEN THE TWO GOVERNMENTS IN THE FIELD OF AGRICULTURE, WITH IMPORTANT FOLLOW-ON ACTIVITIES, SUCH AS INVITATION TO MINISTER PAULINELLI TO MAKE AN OFFICIAL VISIT TO THE US AND A US COMMITMENT TO PROVIDE TECHNICAL ASSISTANCE IN AGRICULTURE ON A REIMBURSABLE BASIS;

(B) A CANDID EXCHANGE OF VIEWS ON THE MAJOR BILATERAL AND MULTILATERAL ISSUES IN WORLD AGRICULTURE, INCLUDING ATTITUDES TOWARD COMMODITY AGREEMENTS, THE WORLD FOOD PROBLEM, BRAZILIAN INTEREST IN EXPANDED FOREIGN AGRO-BUSINESS INVESTMENT, AND THE OUTLOOK FOR CERTAIN SPECIFIC COMMODITIES, SUCH AS WHEAT, SOYBEANS, AND SUGAR.

(C) SUCCESS IN PROJECTING TO THE BRAZILIAN PRESS AND PUBLIC A SENSE OF COMMON INTEREST AND PURPOSE AND A US DESIRE FOR CLOSE COOPERATION. EMBASSY REQUESTS INSTRUCTIONS ON APPROPRIATE FOLLOW-UP. END SUMMARY.

2. SECRETARY BUTZ, ACCOMPANIED BY THE ADMINISTRATOR OF THE FOREIGN AGRICULTURAL SERVICE, THE ADMINISTRATOR OF THE AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, AND THE SALES MANAGER OF THE FOREIGN AGRICULTURAL SERVICE, VISITED BRASILIA, RIO, AND SAO PAULO JUNE 20 - 25. DURING HIS VISIT, THE SECRETARY HELD EIGHT HOURS OF DISCUSSIONS WITH BRAZIL'S MINISTER OF AGRICULTURE PAULINELLI, AND HIS SENIOR STAFF; CALLED ON THE FOREIGN MINISTER, THE GOVERNORS AND SECRETARIES OF AGRICULTURE OF THE STATES OF RIO AND SAO PAULO, AND THE HEADS OF BRAZIL'S WHEAT BOARD AND SUGAR INSTITUTE; AND MET A BROAD CROSS-SECTION OF AGRO-BUSINESS REPRESENTATIVES IN BRAZIL. TO STRESS THE COMMONALITY OF US-BRAZILIAN INTERESTS IN AGRICULTURE, THE SECRETARY ADDRESSED THE US CHAMBERS OF COMMERCE IN RIO AND SAO PAULO, AND GAVE SEVERAL INTERVIEWS AND PRESS CONFERENCES. THE EMBASSY BELIEVES THAT THE FORMAT OF THE SECRETARY'S VISIT WAS IDEALLY LIMITED OFFICIAL USE

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SUITED TO ACCOMPLISH THE SECRETARY'S OBJECTIVES. FOLLOWING IS AN UNCLEARED NON-TECHNICAL SUMMARY OF THE MAJOR TOPICS AND ISSUES DISCUSSED DURING THE VISIT.

3. COMMONALITY OF INTERESTS: SECRETARY BUTZ STRESSED THE ENORMOUS GROWTH IN WORLD FOOD DEMAND OVER THE NEXT TWENTY YEARS, AS A RESULT OF POPULATION GROWTH AND INCREASING PURCHASING

POWER. ALTHOUGH THE US AND BRAZIL WERE COMPETITORS IN CERTAIN COMMODITIES (SUCH AS SOYBEAN AND CORN), THE PROSPECTIVE EXPANSION OF THE WORLD MARKET ENSURED THAT BOTH COUNTRIES WOULD BE ABLE FULLY TO DEVELOP THEIR AGRICULTURAL POTENTIAL. BRAZILIAN AND US AGRICULTURE WERE COMPLEMENTARY IN IMPORTANT RESPECTS BECAUSE, IN THE SECRETARY'S VIEW, BRAZIL'S POTENTIAL FOR PRODUCTION OF WHEAT, IN RELATION TO PROSPECTIVE INTERNAL DEMAND REMAINED LIMITED. A SIGNIFICANT PORTION OF BRAZIL'S EXPANDING SOY-BEAN PRODUCTION MIGHT ULTIMATELY BE ABSORBED BY COMMERCIAL CATTLE FEEDING PROGRAMS. THE INTERESTS OF BOTH COUNTRIES WOULD BE SERVED IF BRAZIL WOULD CONCENTRATE ITS EFFORTS ON EXPANDING SUGAR, COFFEE, AND COCOA EXPORTS TO THE US RATHER THAN SEEKING COSTLY SELF-SUFFICIENCY IN WHEAT. THE TWO COUNTRIES, AS LEADING AGRICULTURAL PRODUCERS IN THE HEMISPHERE, SHARED A COMMON INTEREST IN THE LOWERING OF TARIFF AND NON-TARIFF BARRIERS TO AGRICULTURAL TRADE THROUGH THE MTN. CLOSE COOPERATION WOULD SERVE THE INTERESTS OF BOTH COUNTRIES BY STRENGTHENING THE POSITION OF THE US AND BRAZIL IN WORLD AGRICULTURE.

IN ADDITION TO THE MTN, AN IMPORTANT AREA FOR SUCH COOPERATION WOULD BE A JOINT US-BRAZILIAN EFFORT TO PROMOTE SOYBEAN CONSUMPTION, A PRIORITY CONCERN TO BOTH COUNTRIES.

4. MINISTER PAULINELLI EMPHASIZED THE HIGH PRIORITY GIVEN BY PRESIDENT GEISEL TO RAPID, BALANCED DEVELOPMENT OF BRAZILIAN AGRICULTURE, IN ORDER TO IMPROVE BRAZIL'S FOOD BALANCE, TO IMPROVE THE INTER-REGIONAL EQUILIBRIUM IN THE DEVELOPMENT PROCESS, AND FOR SOCIAL LIMITED OFFICIAL USE

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AND BALANCE OF PAYMENTS REASONS. HE NOTED THAT PRESIDENT GEISEL HAD DOUBLED THE BUDGET FOR AGRICULTURAL RESEARCH.

THE MINISTER DID NOT SPECIFICALLY RESPOND TO THE SECRETARY'S INVITATION FOR CLOSER COOPERATION INTERNATIONALLY ALTHOUGH HE APPEARED TO ENDORSE THE IDEA OF CLOSE COORDINATION IN THE MTN.

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5. TECHNICAL COOPERATION: MINISTER PAULINELLI
AND THE TWO STATE SECRETARIES OF AGRICULTURE EXPRESSED
A STRONG INTEREST IN REIMBURSABLE TECHNICAL
ASSISTANCE. SECRETARY BUTZ COMMITTED THE
S TO HELP BRAZIL FIND AGRICULTURAL EXPERTS,
BOTH IN THE US AND OVERSEAS, AND PROPOSED THAT
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MINISTER PAULINELLI SEND A SMALL TEAM OF EXPERTS
TO WASHINGTON TO MEET WITH USDA EXPERTS AND OTHERS

FOR THE SELECTION OF DESIRED RESEARCH SPECIALISTS.

PAULINELLI OBSERVED THAT EVEN IN BRAZIL, WITH ITS LARGE LAND AREA, IT WAS CHEAPER TO INCREASE AGRICULTURAL PRODUCTIVITY (STILL LOW IN MOST CROPS) THAN TO BRING VIRGIN AREAS INTO PRODUCTION. THIS POINT WAS ALSO STRESSED BY THE SECRETARY OF AGRICULTURE FOR THE STATE OF SAO PAULO WHERE, EXCEPT FOR THE POSSIBILITY OF CONVERSION OF PASTURES TO CROPS, THE POSSIBILITIES FOR EXPANDING EXTENSIVE AGRICULTURE HAVE BEEN LARGELY EXHAUSTED. THE GOB NOW SEEKS IMPROVEMENT OF SEEDS, FERTILIZER USE AND PESTICIDES, BY PROVIDING GRANTS AND SUBSIDIES. BRAZIL HOPES TO BECOME SELF-SUFFICIENT IN FERTILIZERS BY 1979 (ESTIMATED DEMAND OF 4 MILLION METRIC TONS). THE MINIMUM SUPPORT PRICES ARE INTENDED TO ENCOURAGE PRODUCTION OF NEW CROPS, BETTER PRODUCTION METHODS, AND INVESTMENT OF THE REQUIRED CAPITAL.

IN THIS CONNECTION, THE MINISTER NOTED THAT EMBRAPA, THE NATIONAL AGRICULTURAL RESEARCH ENTITY (EMPRESA BRASILEIRA DE PESQUISA AGRO PECUARIA) NOW EMPLOYS 1200 EXPERTS, OF WHICH 600 WILL RECEIVE FURTHER TRAINING WITHIN THE NEXT 3 YEARS, EITHER WITHIN BRAZIL OR MAINLY ABROAD. BRAZIL WOULD LIKE TO CONTRACT FOR 100 TOP SPECIALISTS IN THE VARIOUS DISCIPLINES OF FOOD AND AGRICULTURE, AND THE MINISTER ASKED SECRETARY BUTZ TO HELP BRAZIL FIND THESE EXPERTS. EMBRAPA WILL CENTRALIZE ALL RESEARCH IN 15 CENTERS, EACH WITH A SPECIFIC PRODUCT RESPONSIBILITY, TO AVOID DUPLICATION.

6. COMMODITY POLICY: SECRETARY BUTZ STRESSED THAT THE US HAS RESERVATIONS ON COMMODITY AGREEMENTS, NOTING THE NEGATIVE EXPERIENCE WITH MANY SUCH AGREEMENTS IN THE PAST. ARTIFICIALLY HIGH PRICES (BY SUPPORT OR PROTECTION) WERE DANGEROUS BECAUSE THEY ENCOURAGE INEFFICIENT HIGH-COST PRODUCERS. THE MARGIN ALLOWED TO MARKET LIMITED OFFICIAL USE

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FORCES (THROUGH MINIMUM AND MAXIMUM PRICES) WAS FREQUENTLY TOO NARROW. THE SECRETARY WARNED PAULINELLI AGAINST MAKING SUCH A MISTAKE IN SOYBEANS.

MINISTER PAULINELLI SAID THAT IN HIS VIEW BRAZIL, EXCEPT UNDER SPECIAL CIRCUMSTANCES (SUCH AS COFFEE), SHOULD NOT FAVOR TIGHT COMMODITY AGREEMENTS, WHICH TEND TO FREEZE TRADITIONAL MARKET SHARES, AND ACKNOWLEDGED THE RISKS OF EXCESSIVELY HIGH PRICES. FOR EXAMPLE, BRAZIL DID NOT FAVOR

COMMODITY ARRANGEMENTS IN OILS AND FATS, SUCH AS SOYBEANS.

7. OUTLOOK FOR SPECIFIC COMMODITIES.

A) SUGAR: SECRETARY BUTZ SAID HE DID NOT BELIEVE THE US CONGRESS WOULD, IN THE NEAR FUTURE, PASS A NEW SUGAR ACT. IN HIS VIEW, A NEW QUOTA SYSTEM SOULD NOT SERVE THE INTERESTS OF EFFICIENT CANE SUGAR PRODUCERS. BRAZIL SHOULD SEEK THE DESIRED STABILITY AND GROWTH OF MARKETS AND EXPORT EARNINGS THOROUGH LONG-TERM CONTRACTS WITH MAJOR PRIVATE SUGAR SUERS IN THE US. EVEN IF A NEW SUGAR ACT WOULD PASS, THE SECRETARY CONSIDERED IT PRACTICALLY CERTAIN THAT SUCH CONTRACTS WOULD BE HONORED UNDER A POSSIBLE FUTURE COUNTRY QUOTA SYSTEM.

GENERAL TAVARES, HEAD OF THE SUGAR AND ALCOHOL INSTITUTE, STRESSED THAT WHILE HE APPRECIATED THE SECRETARY'S REASONING THE GOB ON BALANCE WOULD FEEL MORE SECURE IN ITS PLANNING IF IT WOULD COUNT, AS IN THE PAST, ON A FIXED QUOTA FROM HE US. THE GENERAL EXPRESSED THE HOPE THAT EVENTUALLY BRAZIL COULD ACHIEVE A 1 MILLION MT QUOTA. SECRETARY BUTZ DESCRIBED SUCH A PROSPECT, UNDER ANY FORESEEABLE SUGAR ACT, AS COMPLETELY UNREALISTIC AND POINTED OUT THAT SUCH A TARGET FOR BRAZILIAN PARTICIPATION IN THE US MARKET WAS MUCH MORE ACHIEVABLE IN AN OPEN MARKET SITUATION IN THE US. (EMBASSY COMMENT: THE POSSIBILITY OF A FUTURE OPENING OF THE US MAKET TO CUBAN SUGAR MIGHT INFLUENCE THE IAA'S STANCE.)

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B) WHEAT: SECRETARY BUTZ EMPHASIZED THAT THE US REMAINED THE MOST EFFICIENT WHEAT PRODUCER AND EXPRESSED THE HOPE THAT BRAZIL WOULD COONTINUE TO RECOGNIZE THIS AND BUY US WHEAT, WHILE THEUS BUYS BRAZILIAN SUGAR. GIVEN BRAZIL'S PROSPECTIVE POPULATION AND, MORE PARTICULARLY, URBAN GROWTH, HE EXPRESSED DOUBT THAT LONG-TERM SELF-LIMITED OFFICIAL USE

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SUFFICIENCY WAS EITHER POSSIBLE OR ECONOMICALLY DESIRABLE.

MAINTAINING THE POSITION THAT SELF-SUFFICIENCY WAS A NATIONAL GOAL, PAULINELLI, ON HIS PART, AND GUITTON, PRESIDENT OF THE WHEAT BOARD, STRESSED BRAZIL'S TARGET OF A 6 PERCENT INCREASE IN GRAIN PRODUCTION PER YEAR, LARGELY THROUGH INCREASES IN PRODUCTIVITY (FROM 1,200 KG/HECTARE TO AT LEAST 3,000 KG/HECTARE), WITH THE GOAL OF SELF-SUFFICIENCY IN WHEAT BY THE END OF THE DECADE. THEY AND OTHER SNOTED THE REINFORCING EFFECTS ON WHEAT PRODUCTION OF INCREASED SOYBEAN OUTPUT AND VICE VERSA. GUITTON INDICATED INTEREST IN THE PROSPECTS FOR A NEW IWA.

THE SECRETARY AND MR. GUITTON ALSO DISCUSSED ISSUES OF US WHEAT SUPPLY TO BRAZIL OUT OF GULF PORTS AND AGREED TO STAY IN TOUCH ON ANY FUTURE PROBLEMS.

C) SOYBEANS: THE SECRETARY ASKED ABOUT THE MARKETING OF THE BRAZILIAN CROP, NOTING THAT THE US EXPECTED A VERY LARGE CROP THIS FALL: SOME OF THIS CROP MIGHT BE WITHHELD

BY THE GROWERS AND MARKETING MORE GRADUALLY. PAULINELLI, IN ESSENCE, RESPONDED THAT BRAZIL WAS FOLLOWING A POLICY OF MAXIMIZING PRODUCTION, AND THAT, WHILE THE MARKETING OF BRAZILIAN SOYBEANS WAS NOW FOR THE FIRST TIME BEING SPREAD OVER THE YEAR, THE BOB EXPECTED TO CONTINUE A POLICY OF MAXIMIZING SALES.

THE DISCUSSION HIGHLIGHTED THE FACT THAT THE PRODUCTIVITY OF BRAZILIAN SOYBEAN PRODUCTION, UNLIKE THAT OF MANY OTHER BRAZILIAN CROPS, IS HIGH (AN AVERAGE OF 27.5 BUSHELS PER ACRE FOR SAO PAULO STATE), AND CONSIDERED IN SOME DETAIL THE ECONOMICS OF DOUBLE-CROPPING WITH WHEAT, PRACTICED EXTENSIVELY IN THE WHEAT-GROWING AREAS, WHICH MAKES SOYBEANS AN ATTRACTIVE CROP THROUGHOUT THE SOUTH, (DIRECT COST OF PRODUCTION OF ABOUT \$260 HECTARE EXCLUDING LAND).

8. FOREIGN INVESTMENT. IN THIS DISCUSSION WITH SECRETARY BUTZ, THE FOREIGN MINISTER EMPHASIZED BRAZIL'S STRONG INTEREST IN INCREASED FOREIGN INVESTMENT IN AGRO-BUSINESS. THE SECRETARY TOOK NOTE OF THIS, AND SAID THE USG WOULD FOLLOW THIS UP.

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9. WORLD FOOD PROBLEM. ON GRAIN RESERVES, SECRETARY BUTZ SAID THAT AN INTERNATIONAL ENTITY WAS NEEDED TO MONITOR AND SUPERVISE THE CREATION AND USE OF SUCH RESERVES. EACH COUNTRY SHOULD, HOWEVER, PRESERVE ITS AUTONOMY AS TO HOW TO MANAGE ITS STOCKS. IN THE US, SUCH STOCKS WOULD BE HELD BY FARMERS, ELEVATORS AND THE TRADE, AND PRICE INCENTIVES IN TIMES OF SHORTAGE WOULD NO DOUBT MOVE SUCH RESERVES. MINISTER PAULINELLI FULLY CONCURRED WITH PRINCIPLE OF AUTONOMY.

THE SECRETARY ALSO EXPRESSED SOME CONCERN THAT AN INTERNATIONAL BODY WOULD DEplete RESERVE STOCKS RAPIDLY. THIS COULD DEFEAT THE BASIC PURPOSE OF WORLD GRAIN RESERVES.

10. PROSPECTS FOR BRAZILIAN AGRICULTURE. IN THEIR PRESENTATION, PRIVATE INDUSTRY REPRESENTATIVES -- INCLUDING REPRESENTATIVES FROM ANDERSON CLAYTON, COOK DO BRASIL, CARGILL, AND SWIFT -- GAVE HIGHLY OPTIMISTIC ASSESSMENTS OF BRAZIL'S AGRICULTURE PROSPECTS.

THE REPRESENTATIVES ASSERTED THAT THERE WAS EXCESSIVE GOVERNMENT INVOLVEMENT IN PRODUCTION, INTERNAL AND EXPORT TRADE, AND PRICE SETTING. FOR EXAMPLE, INCENTIVES TO FARM COOPERATIVES HAD

INCREASED THE SHARE OF SOYBEAN EXPORTS MARKETED BY THE COOPERATIVES TO SOME 75 PERCENT. SOME POLICIES, IN THE INDUSTRY'S VIEW, IMPEDE RAPID AND FULL DEVELOPMENT OF BRAZILIAN AGRICULTURE, SUCH AS CEILING PRICES FOR MEAT WHICH DISCOURAGE MODERN CATTLE MANAGEMENT AND PRODUCTION OF HIGH QUALITY BEEF.

THE INDUSTRY FORESAW SUBSTANTIAL INCREASES IN SOYBEAN PRODUCTION (ONE ESTIMATE BEING 16 MILLION TONS BY 1978) AND CORN WHEE PRODUCTION COULD WITHIN A SHORT TIME BE RAISED TO ABOUT 24 MILLION TONS (AS AGAINST CURRENT PRODUCTION OF ABOUT 15 MILLION TONS).

THERE WAS ALSO UNANIMITY THAT BRAZIL COULD DEVELOP INTO A MAJOR PRODUCER OF BEEF. SOME THOUGHT THAT THE GREATEST POTENTIAL WAS IN LIMITED OFFICIAL USE

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THE NORTH, BECAUSE OF THE ABUNDANCE OF LAND, PRODUCTION ESSENTIALLY FOR EXPORT LARGELY DETACHED FROM GOVERNMENT INTERVENTION, AND SHORTER DISTANCES TO THE US AND EUROPEAN MARKETS, BY SOME 6 TO 7 SAILING DAYS, WHICH MIGHT ULTIMATELY ENABLE BRAZIL TO ASSUME ARGENTINA'S FORMER POSITION AS A PRINCIPAL EXPORTER.

11. PRESS. IN HIS MEETINGS WITH THE PRESS, SECRETARY BUTZ WAS SUCCESSFUL IN CONVEYING THE PRINCIPAL THESES OF HIS VISIT -- THE LONG-TERM COMPATIBILITY OF VIGOROUS AGRICULTURAL GROWTH IN THE US AND BRAZIL, THE COMMON INTEREST IN FREER AGRICULTURAL TRADE, THE NEED TO AVOID DISTORTIONS TO PRODUCTION AND TRADE THROUGH EXCESSIVE GOVERNMENT INTERVENTION, THE IMPORTANCE OF THE MARKET AS THE PRINCIPAL STIMULUS TO LOW-COST EFFICIENT AGRICULTURAL PRODUCTION, AND THE POSSIBILITY OF INCREASE OF US AND BRAZILIAN LEVERAGE IN WORLD AGRICULTURE THROUGH GREATER COOPERATION, DESPITE REMAINING DIFFERENCES IN PHILOSOPHY AND NATIONAL INTERESTS. SEPTTEL WILL COVER BRAZILIAN PRESS REACTION IN GREATER DETAIL.

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12. INVITATION. MINISTER PAULINELLI ACCEPTED
THE INVITATION OF SECRETARY BUTZ TO VISIT THE
US, AD EXPRESSED THE HOPE TO BE ABLE TO DO SO
AT AN EARLY DATE.

13. ACTION REQUESTED: EMBASSY WOULD APPRECIATE
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COMMENTS AND GUIDANCE ON FOLLOW-UP ON (A) TECHNICAL ASSISTANCE
AND (B) POSSIBLE FOLLOW-UP APPROACHES TO GOB ON
CLOSER COORDINATION BETWEEN THE US AND BRAZIL

IN THE MTN ON AGRICULTURE. WITH RESPECT TO THE
PROMOTION OF AGROABUSINESS INVESTMENTS, EMBASSY
PLANS TO INCORPORATE THIS IN ITS PROPOSALS, NOW IN PREPARATION, FOR
INDUSTRY TASK FORCES, TO PROMOTE US EXPORTS AND
INVESTMENTS IN BRAZIL. WITH ESPECT TO COOPERATION
IN THE MTN, IN EMBASSY'S VIEW, THIS SHOULD BE PURSUED
AS PART OF THE WORK PROGRAM OF THE PROJECTED TRADE
CONSULTATIVE GROUP.
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